

Message Text

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C O N F I D E N T I A L STATE 101266

EXDIS, USEEC, PARIS ALSO FOR OECD

E.O. 11652: GDS

TAGS: EEWT, UR, OECD

SUBJECT: MESSAGE TO GROUP OF G-6 MEMBERS FROM
UNDERSECRETARY COOPER

1. IN CONTEXT OF APRIL 13, G-6 LUNCH HOSTED BY FROMENT-
MEURICE UNDERSECRETARY COOPER DISTRIBUTED TO HIS COUNTER-
PARTS MATERIAL ON THE SOVIET ECONOMY AS PART OF AN EFFORT
TO STIMULATE DISCUSSION AMONG HIS COLLEAGUES AND WITHIN
THE OECD ON HOW REDUCED RATES OF FUTURE SOVIET ECONOMIC
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GROWTH MAY EFFECT THE WEST. THE TEXT OF THE UNDER-
SECRETARY'S COVERING LETTER TO HIS COLLEAGUES IS AS
FOLLOWS:

DURING OUR RECENT DISCUSSION OF SOVIET ECONOMIC PROS-
PECTS AT THE G-6 DINNER, THERE WAS GENERAL SENTIMENT IN
FAVOR OF AN EXCHANGE OF INFORMATION ON HOW REDUCED GROWTH

RATES IN THE USSR MIGHT IMPACT ON SOVIET BORROWING IN THE WEST AND ON EAST/WEST TRADE. AS A FIRST STEP TOWARD SUCH AN EXCHANGE I AM ENCLOSING SEVERAL U.S. GOVERNMENT PAPERS ON ENERGY, THE ECONOMY AND DEBT, AS WELL AS PAPERS FROM A RECENT STATE DEPARTMENT SEMINAR ON SOVIET ENERGY PROSPECTS. SOME OF THE PAPERS ARE BEING UPDATED AND I WILL SEND YOU A COPY WHEN THEY ARE COMPLETED.

THE SOVIET UNION NOW FACES A COMBINATION OF CONSTRAINTS ON ECONOMIC GROWTH UNPARALLELED IN THE POST-WAR PERIOD: DECLINING INCREMENTS TO THE LABOR FORCE, THE PLANNERS' DECISION TO SLOW THE INCREASE IN CAPITAL INVESTMENT, AND SERIOUS PROBLEMS IN INCREASING PRODUCTION OF PRIMARY ENERGY SOURCES, NOTABLY OIL. THIS COMBINATION OF FACTORS RAISES IMPORTANT QUESTIONS. I HAVE ENCLOSED WITH THIS LETTER A LIST OF WHAT WE VIEW AS SOME OF THE MAJOR ISSUES ON WHICH I WOULD APPRECIATE YOUR VIEWS.

THE ON-GOING WORK AT COMMITTEE LEVEL IN THE OECD COULD ALSO PROVIDE IMPORTANT CONTRIBUTIONS FOR OUR CONSIDERATION. I WAS PLEASED TO NOTE THAT THE OECD TRADE COMMITTEE WORKING PARTY ON EAST/WEST TRADE WILL BEGIN TO LOOK MORE CLOSELY AT DEBT PROJECTIONS AND EXPORT POTENTIAL OF EASTERN COUNTRIES AND I LOOK FORWARD TO COMPLETION OF THE WORK UNDERTAKEN BY THE COMBINED ENERGY STAFF ON SOVIET ENERGY PROSPECTS AND BY THE AD HOC GROUP ON EAST-CONFIDENTIAL

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WEST TECHNOLOGY TRANSFER.

I LOOK FORWARD TO HEARING WHAT YOU AND YOUR COLLEAGUES FEEL ARE LIKELY TRENDS, AND TO CONTINUING OUR DIALOGUE ON THIS SUBJECT.

2. ACTION REQUESTED - PARAGRAPH 2 OF THE UNDERSECRETARY'S LETTER REFERRED TO A LIST OF U.S. VIEWS ON MAJOR ISSUES FOR FUTURE DISCUSSION WHICH SHOULD HAVE BEEN ATTACHED. THIS LIST WAS INADVERTENTLY NOT INCLUDED WITH THE MATERIAL MR. COOPER GAVE TO HIS COUNTERPARTS IN PARIS. IN THE INTEREST OF TIME THE DEPARTMENT IS FORWARDING THE TEXT OF THIS ENCLOSURE TO ADDRESSEE POSTS WITH THE REQUEST THAT IT BE PASSED ON AS SOON AS POSSIBLE, TO THE APPROPRIATE G-6 OFFICIAL IN YOUR CAPITAL. (NAMES AND ADDRESSEE ARE LISTED BELOW.)

THE TEXT OF THE ENCLOSURE IS AS FOLLOWS:

IMPLICATIONS FOR THE WEST OF DECLINING SOVIET ECONOMIC GROWTH

-- ASSUMING THE CIA PROJECTION OF A SHARP DECLINE IN SOVIET OIL PRODUCTION BY THE MID-1980'S IS ESSENTIALLY CORRECT, WHAT HAPPENS AFTER 1985? IS IT POSSIBLE THAT THE DOWN-TURN IN OUTPUT IS ONLY TEMPORARY AND THAT AFTER A FEW YEARS THE SOVIETS WILL GET MORE OF THEIR AMPLE RESERVES INTO PRODUCTION? OR IS THE DOWNWARD TREND LIKELY TO CONTINUE?

-- OUR EXPERTS HAVE CONSIDERED THE RESULTS OF A PRO- LONGED DECLINE IN SOVIET OIL OUTPUT (TIGHTENING WORLD-WIDE SUPPLY, POSSIBLE COMPETITION FOR MIDDLE EAST OIL), BUT WHAT ARE THE IMPLICATIONS OF A RENEWED RISE IN SOVIET OIL PRODUCTION? FOR THE WEST? FOR OPEC?

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-- INITIAL DATA FOR 1977 INDICATE A SIGNIFICANT CUT IN EASTERN IMPORTS FROM THE WEST. WILL THE SOVIETS AND EAST EUROPEANS BE ABLE TO MAINTAIN THIS LOWER LEVEL OF HARD CURRENCY IMPORTS--PARTICULARLY WHEN SHORTAGES OF CAPITAL AND LABOR MAKE INCREASED PRODUCTIVITY (AND PRESUMABLY WESTERN TECHNOLOGY)--EVEN MORE IMPORTANT? WHAT IS THE POTENTIAL IMPACT ON EXPORT CREDIT POLICY AND ON EXPORT-SENSITIVE WESTERN INDUSTRIES WHICH MAY BE SIGNIFICANTLY DEPENDENT UPON THE SOVIET MARKET? WILL LARGE SCALE IMPORTS OF GRAIN CUT INTO HARD CURRENCY AVAILABLE FOR IMPORTS CONTINUOUSLY OR ONLY IN YEARS OF POOR HARVEST?

-- WHAT ARE THE PROSPECTS FOR CONTINUING OR INCREAS- ING IMPORTS OF WESTERN TECHNOLOGY? COULD SUCH AN INFUSION OF TECHNOLOGY COMPENSATE FOR RESOURCE SHORTAGES BY INCREASING PRODUCTIVITY? CAN THIS IMPORTED TECHNOLOGY INCREASE EASTERN EXPORT POTENTIAL SUFFICIENTLY TO REPAY ITS HARD-CURRENCY COST?

-- THE EAST'S HARD-CURRENCY DEBT HAS REACHED LEVELS WHERE IT HAS BECOME A SOURCE OF CONCERN TO BOTH EAST AND WEST. CAN OR WILL THE EAST, AS WELL AS THE WEST, ALLOW IT TO CONTINUE GROWING? WHAT IS THE POTENTIAL IMPACT OF PREDICTED RESOURCE SHORTAGES AND ECONOMIC SLOWDOWN ON DEBT GROWTH? ON DEBT SERVICING AND REPAYMENT?

-- WE SHOULD CONSIDER THE POTENTIAL IMPACT OF A DECREASE IN SOVIET OIL PRODUCTION ON EASTERN EUROPE. HOW WILL THE SOVIETS CHOOSE BETWEEN HARD CURRENCY SALES TO THE WEST AND SUPPORT FOR THEIR EASTERN EUROPEAN ALLIES? WHAT WOULD BE THE IMPACT ON THEIR ECONOMIES AND ON EAST/ WEST TRADE OF THE NEED FOR INCREASED HARD CURRENCY IMPORTS
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OF OIL BY THE EASTERN EUROPEANS?

3. THE APPROPRIATE ADDRESSEES ARE:

UNITED KINGDOM -
MR. MICHAEL D. BUTLER,
DEPUTY UNDER SECRETARY OF STATE,
FOREIGN OFFICE,
LONDON.

FRANCE -
MR. HENRI FROMENT-MEURICE
DIRECTOR OF ECONOMIC AND FINANCIAL AFFAIRS
MINISTRY OF FOREIGN AFFAIRS, PARIS

JAPAN -
HIS EXCELLENCY HIROMICHI MIYAZAKI
DEPUTY MINISTER
MINISTRY OF FOREIGN AFFAIRS, TOKYO

FRG -
MR. HANS WERNER LAUTENSCHLAGER
ASSISTANT SECRETARY FOR FOREIGN ECONOMIC POLICY
FOREIGN OFFICE, BONN
EC COMMISSION -
SIR ROY DENMAN
DIRECTOR GENERAL
EXTERNAL RELATIONS
EUROPEAN ECONOMIC COMMISSION, BRUSSELS

4. FYI
UNDER SECRETARY COOPER USUALLY TAKES ADVANTAGE OF
XCSS MEETINGS TO HAVE AN INFORMAL EXCHANGE OF VIEWS
ON CURRENT ISSUES WITH HIS G-6 COUNTERPARTS LISTED ABOVE
WHO ALSO ATTEND XCSS. THESE INFORMAL DISCUSSIONS ARE
CLOSELY HELD AND YOU SHOULD THEREFORE DEAL ONLY WITH THE
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ABOVE LISTED OFFICIALS.
CHRISTOPHER

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NNN

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